FY23 BUDGET PREVIEW

24 January 2022

What to watch for?

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Budget for FY23 will see the government walking the tight rope in terms of boosting growth and achieving fiscal consolidation. In view of upcoming state elections and an attempt to boost consumption, we expect changes in tax concessions. To boost investment, PLI scheme may see higher allocation. Also, to avoid bond market volatility we believe, gross borrowing will be maintained at Rs 12-13tn, despite higher repayments. We thus estimate fiscal deficit between 6-6.25% in FY23.

FY23 fiscal deficit at 6-6.25%: In line with a 13% increase in nominal GDP, Centre's net revenues are estimated to rise by 12.2% and spending is also likely to increase by 4.5% in FY23. Assuming that a large part of disinvestment target for FY22 will be met, we expect only Rs 750bn as disinvestment in FY23. Next year too, most of the fiscal deficit will be financed through market borrowings.

Gross borrowing at Rs 12-13tn: We expect gross borrowing to be in the range of Rs 12-13tn in FY23 against Rs 12.05tn in FY22 (BE) (Actual: Rs 10.34tn - till 21 Jan 2021). As repayment is piling up with a quantum of Rs 3.8tn in FY23 against Rs 2.9tn in FY22, gross borrowing is unlikely to go down. This is likely to put pressure on the yields (10 year currently at 6.6%) which is expected to touch the 7% mark in FY23, albeit in a gradual manner. Interest cost is likely to be ~Rs 9.3tn in FY23 against Rs 8.1tn in FY22BE.

Revenues buoyant: Gross tax revenue to GDP ratio is expected to remain broadly unchanged in FY23 (10.1%) compared with from FY22 (10%). Higher nominal GDP will imply that gross revenues will increase to Rs 26.5tn in FY23 from Rs 22.2tn as per FY22 BE. We expect FY22 BE numbers also to be revised upwards by at least Rs 1tn, when FY22 RE numbers are presented in the budget.

Cheers in the Budget: Upcoming budget may focus on increasing standard deduction of salaried class by Rs 50,000. Apart from this, increased allocation for PLI scheme, and Covid booster shots is also expected. ECLGS scheme may also be expanded especially for sectors severely hit by the pandemic. A waiver of capital gain tax will also be a welcome move as it would help India's inclusion in global bond index. Overall, we expect a balance of consumption and investment centric policies.

Expectations from FY23 Budget

Government on a tight rope

With the Union Budget coming up on February the 1st there are several expectations from the Finance Minister. The shadow of the pandemic still lingers which does hence put certain pressure on the FM to continue with certain programmes which were provided for in the Budget for FY22. At the same time there are several expectations from different sectors which can be addressed by the Budget. We give here our expectations, which have been placed forth keeping in mind the practical side of fiscal space that will be available.

Fiscal slippage: FD 6-6.25% of GDP in FY23

The fiscal deficit for FY23 will be dependent on two factors. The first is the assumption of growth in GDP in nominal terms and the second is the absolute size of the deficit. The way we look at it is that there will definitely be an attempt to lower the fiscal deficit ratio and we look at two scenarios here where the target is either 6% or 6.25%. The GDP growth for the year has been taken at 13% for FY23 which will yield an absolute value of around Rs 262tn. This will mean a fiscal deficit of Rs 15.72 -16.38tn.

Gross borrowing programme

A fiscal deficit of Rs 15.07tn for FY22 (BE) was associated with gross borrowings of Rs 12.06tn with redemptions of Rs 2.81tn resulting in net borrowings of Rs 9.18tn. Other sources of support for the fiscal deficit were Rs 3.92tn through small savings, Rs 0.5tn of short term borrowings, and Rs 0.71tn of drawdown of cash reserves among others.

For FY23 with a deficit in the region of Rs 15.7-Rs 16.4tn, the gross borrowings will tend to be in the region of Rs 12-13tn, given that there are redemptions of Rs 3.8tn this year. Therefore the pressure on the market for borrowings will continue to persist which will in turn will tend to nudge up bond yields.

Subsidy levels

The government will have to persevere with the subsidies on food, fertilizer and fuel. We expect significant moderation in food subsidy as the food relief program will not be required. In addition, even with higher international fuel prices, we do not expect a higher allocation under petroleum subsidy.

Fig 1 – Subsidy breakdown

(Rs tn)	FY20	FY22BE	FY23E
Food	1.09	2.43	3.00
Fertilizer	0.81	0.80	0.75
Fuel	0.39	0.13	0.10
Total	2.28	3.35	3.85

Source: CEIC, Union Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates, E-Bank of Baroda estimates

Interest payments

Interest cost is a large ticket for the government which was Rs 8.10tn for FY22 and is expected to increase to Rs 9.31tn in FY23. We also expect 10Y G-Sec yield to touch the 7% next year, albeit in a gradual manner.

Fig 2 – Interest burden

(Rs tn)	FY20	FY22BE	FY23E
Interest	6.93	8.10	9.31

Source: CEIC, Union Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates, E-Bank of Baroda estimates

Capital expenditure

We expect that government will continue to improve the quality of expenditure, and focus more on capital spending than revenue spending. We thus estimate a 15% jump in capex to Rs 6.4tn in FY23. The direction will be roads and railways as in the past.

Fig 3 – Capex

(Rs tn)	FY20	FY21	FY22BE	FY23E
Capital spending	4.39	4.25	5.54	6.37

Source: CEIC, Union Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates, E-Bank of Baroda estimates

Size of the budget

Size of the budget is likely to range between Rs 37-38tn in FY23.

Fig 4 – Budget size

(Rs tn)	FY20	FY21	FY22BE	FY23E
Size	26.86	34.5	34.83	37-38

Source: CEIC, Union Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates, E-Bank of Baroda estimates

Disinvestment

Disinvestment for FY22 was targeted for Rs 1.75tn and the collections so far has been very sluggish. The government has indicated that the LIC disinvestment plan would go ahead this year and fructify for sure. This being the case, the target for FY23 will be much lower and we expect it to be around Rs 750bn.

Rural orientation

MGNREGA has been one of the most aggressive and effective rural employment programme of the government which has come in handy during the pandemic. The outlay for the same in FY22 was lower but was enhanced subsequently in the second supplementary demand put forth in the Parliament.

Fig 5 – Outlays

(Rs bn)	FY20	FY21	FY22BE	FY23E
MGNREGA	717	1115	730+230	850
PM-KISAN	487	650	650	750

Source: CEIC, Union Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates, E-Bank of Baroda estimates

We expect the amount to be around Rs 850bn for FY23. The PM-Kisan scheme was launched wherein there were cash transfers of Rs 6,000 per beneficiary was targeted for the year. In the light of the State Assembly Elections being held from February onwards, we expect an increase of Rs 100bn under this scheme. At Rs 750bn it would be equal to the budgeted number for FY21.

Tax projections will be critical

Tax receipts

On the revenue side tax receipts would be very critical as they would lay the basis of the budgetary numbers. These receipts also get linked with the state of economy and typically higher growth in GDP should lead to greater buoyancy in tax collections. In fact in FY22, tax revenues have been boosted by the rebound in economy especially in the third quarter.

Fig 6 – Tax receipts-GDP

(Rs tn)	FY19	FY20	FY21PA	FY22BE	FY23E
GDP	190	204	197	223	262
Gross tax collections	20.8	20.1	20.2	22.2	26.5
GTR/GDP	10.9	9.9	10.3	10.0	10.1

Source: CEIC, Union Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates, E-Bank of Baroda estimates; PA-provisional actual

Note: FY22 GDP has been revised now to Rs 232tn. For FY23 we are assuming a similar ratio of ~10% given that in FY22 (RE) GTR will exceed the budgeted amount by at least Rs 1tn.

Budget proposals

1. Taxation
    a. Standard deduction for salaried class to be increased by Rs 50,000.
    b. No change in the individual tax slabs.
    c. Section 80C to be enhanced by Rs 50,000
    d. Interest on home loans which can be deducted from taxable income to be increased by Rs 50,000.
    e. No change in corporate tax structure
    f. Customs duties to be enhanced for electronics and gold as these are two big ticket items in our import basket.

2. PLI allocations for the year to be enhanced form within the total of Rs 1.97tn provided for this scheme over 5 years.

3. ECLGS of government to be extended to sectors in services like hospitality, tourism, entertainment and retail malls.

4. Around Rs 150-200bn to be allocated for Covid-19 booster shots this year.

5. NaBFID to become operational in 2022.

6. Agricultural credit target to increase from Rs 16.5tn to Rs 18tn.

7. Expansion of integration of mandis to e-NAM by 500 this year.

8. A waiver of capital gain tax may be considered. At present, an overseas investor is supposed to pay a short-term capital gains tax in the range of 30-40%, if a listed bond is sold within 12 months. Thus, waiver of capital gain tax is likely to be beneficial in terms of India’s inclusion in the global bond indices.

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